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"WANTED -- RETHINKING ON TAXATION"

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The idea of an integrated tax structure was borrowed from Professor Nicholas Kaldor of the United Kingdom. It meant imposition of wealth and expenditure taxes over and above income tax, estate duty, capital gains tax and other taxes which are considered to be normal. Prof. Kaldor had made it very clear that, if India wanted to follow his advice in going in for wealth tax and expenditure taxes, a pre-condition of such a reform should be that there would be a ceiling on income-tax. He said that the income-tax should in no case exceed seven annas in the rupee for the highest slabs. In other words, he wanted to tax idle wealth on the one hand, and on the other hand to give incentives for those who have income and would use it productively. What has happened, however, is the worst of both worlds. While additional burdens in direct taxation were placed on the shoulders of those who <u>produce</u>, the relief that was envisaged by Prof. Kaldor to stimulate productive enterprise was conveniently overlooked.

The question of taxation does not concern a few rich individuals here and there who may have wealth. It has a bearing on public welfare. Taxation should aim at increasing wealth in the country, if poverty is to be removed.

Wealth that is productively used for the benefit of the country is a good thing. When wealth is taxed in an excessive and vindicative manner, as it is today, then capital formation, which our country so badly requires, is impeded and economic growth is harmed. There isasmaller cake to go round, if one is to use Dr. Ludwig Erhard's phraseology.

The present fiscal philosophy of our Government is a reflection of primitive and outmoded socialist ideas which have been thrown on the scrapheap by advanced socialist parties like the German Social Democrats, the British Labour Party and many others in Europe. They have realised that welfare cannot be promoted by excessive taxation or by nationalisation because the precondition of welfare is the creation of wealth which in turn requires incentives to work hard, save and invest.

We want a better life for the mass of the people, and particularly for those who are the poorest. But to want welfare is one thing and to want a Welfare State is another. As Mr. Jayaprakash Narayan has quite rightly described it, the Welfare State is "a creeping paralysis" that destorys the character of the people and the economy of the country. In other words, Welfare and the State are contradictions. There is little welfare about a State. The State is primarily an engine of rule, of control - a police mechanism. Such a police mechanism is essentially not meant for welfare. Welfare comes from the production of an ample measure of goods and services which the people want and can enjoy. If we want welfare and wish to wage a war on poverty, we must build a modern industrial society based on sound agricultural base.

A modern industrial society - this is increasingly true of even communist countries like Yugoslavia, Poland and now Soviet Russia, where ideas of the profit motive and some measure of competition are being progressively accepted -- needs new ideas, new techniques and new equipment to be harnessed to create wealth for the welfare of the people. We would not adopt discarded techniques and discarded ideas from other countries, if we are to progress.

Our objective should be to create conditions which make for a rapid and large-scale increase in wealth. We should encourage more and more people to be wealthy. A prosperity-owning democracy, such as exists in the Scandinavian countries, in Switzerland, Australia, New Zealand, West Germany, Britain and the U.S., should be our aim.

In order to encourage this trend, the Government should play upon the desire of the common man to improve his lot. Crores of people in our villages should be given an opportunity to share in the good things of life, to be able to buy consumer goods, and to have some comfort. That is real welfare and social justice. It also means that a big home market is created in which the products of industry can be absorbed. At the same time, it would create purchasing power in the pockets of our people, through which they can buy the things they need to enrich their lives.

There is an argument that the people are not able to save enough to invest in industry and agriculture, and, therefore, the Government should tax them to get funds for investment. But excessive taxation which diverts money or capital from private pockets to the coffers of the State is harmful to economic development, because every rupee that is diverted from the pocket of a man who would invest it productively in a spirit of enterprise to make more profit will be wasted by the Government. No government has ever created profitable enterprises anywhere in the world. India is no exception. Therefore, every rupee diverted by excessive taxation from the pockets of those who might have productively invested it, as Prof. Kaldor wanted, is wasted in a way that is becoming familiar in State enterprises in this country.

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